EX PARTE OR LATE FILED

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June 30, 1994

RECEIVED

JUN 3 0 1994

Mr. William F. Caton Secretary Federal Communications Commission 1919 M Street, N.W. Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION OFFICE OF SECRETARY

Re: Notification of Permitted Written Ex Parte
Presentation in MM Docket Nos. 92-266 & 93-215

Dear Mr. Caton:

ParCable, Inc. by its attorneys and pursuant to Section 1.1206(a)(1) of the Commission's rules, hereby submits two copies of this memorandum regarding a permitted <u>ex parte</u> presentation to Commission officials regarding MM Docket Nos. 96-266 & 93-215.

Today at 11:00 a.m. Michael Grannon of ParCable, Inc. along with Donna C. Gregg of Wiley, Rein & Fielding, met with Patrick Donovan, Deputy Chief of Cable Services Bureau and Hugh Boyle, Accountant, Cable Services Bureau. The discussion related to the attached issues raised in the above-named companies' pleadings in the cable rate regulation dockets cited above.

Kindly direct any questions regarding this matter to the undersigned.

Respectfully submitted,

Donna C. Grego

DCG/ddl Attachment

cc: Patrick Donovan

Hugh Boyle

No. of Copies rec'd O+ |

Comparison of Disparate Effects of New Rules On Income Tax Reimbersement Between C Corporations and S Corporations, Partnerships and Sole Proprietorships ("S Corp's")

Revenue N. Revenue O. Leas: Expenses Offer Than Income Towe D. Leas: Corp Pre-Tex Exraings Leas: C Corp Pre-Tex Exraings Reveals: Exraings Retained in Business S. Carrings Ratained in BusinessNet investment in Assets	M Armai Reserve (G + L)	L Total Coperages (Sees Year of + J + N), First Year o (+ J + N)	Office Expenses. J. Januari Eponses, Other Than Income Taxes and Interest. K. Januari Marret Expense	RFROI - IF Only Federal Income Taxes @ 135(f'.35)] By (E4(135)[f'.35)) distribut Fair Rets of Return (NDAFRO) 3 If Only Federal Income Taxes @ 35.00%;	ROI. Revenue Calculators Roi. C. Corr. And S. Carp. Calculations Estimates. (Assuming Sheet Regulators Trustment - No. Adjustments to ROI. C. Income Tal. Adjustments Revenue Calculators Roi. Revenue Calculators Roi. Revenue Calculators Roi. Roi. Truss. Fair Rois of Roi. p. a. C. Equals. Fair Rois of Roi. p. a. D. Loes: Annual inferent Expense E. Equals: Interest Adjusted Fair Rois of Roi. p. a. (WFRO) Rapanaes
51, 125, 000 11, 250, 786 11, 250, 786	55.228.788	\$6,361,38	31,000,000	\$5,00% () () () () () () () () () ()	Page 1
1,400,000 1,000,000	34184	8,101,00	(000700A)		Remarks Amen on the year Year's Day For C Comp - Advanced Return Status 11.295 11.134.009 10.0000
Carnings Realmed in Buildings Controllers	34.231.731	(1,00,751)	\$5,000,000]	582.78 582.21 58.71	Revises Calculations Revises Calculations For Si Corp. Access Access For Si Corp. For Si

- 1. For Puposes of Musiculian, This Ecompie Uses The Top Foderal Rate For C Copy's, Even Though The Top Rate For 8 Copy's Owners to Higher (24.0%).
 2. 8 Copy Must Charge Loss Than C Copy And Therefore Has Loss To Robrevel is Business Than C Copy, Deeplis Same Fundamental Carl Bruckers and Same Fair Retent On Investment.
 3. If 9 Copy Was Treated Same An C Copy, Effect On Cable Entity Cash Flows And Cubic Subscribers' Rates Would Be The Same.
- 4. 3 Corp's WM Main Distributions To Shareholders For Income Taxes On Cable Entity Saveings, And The New Rules Would Not Allow These Distributions For Income Taxes
 To Be Reimbursed Through Rates, Thorsby Executively Lowering The Net Return On Investment For a 5 Corp (Venue A Similarly Situated C Corp).

Example 2 - FCC Form 1205 Format

Comparison of Disparate Effects of New Rules On income Tax Relimbursement Between C Corporations and S Corporations, Partnerships and Sole Proprietorships ("S Corp's")

Assumed Results For Rese Year For Roth C. Corp. And 3 Corp. Cable Company Examples: (Assumed Same Results For Rese Year For Roth C. Corp. And 3 Corp. Cable Company Examples: (Assuming Same Results For Reserved.) The Adjustment's To RO! Or Income Tax Allowance)		_	Expense Structure But Revised Rate Rules;
Revenue Calculations		Revenue Calculati	ores
	Remills For C Cupp S S Corp	For C Corp - Allowed For	III For S Corp - Allowed For
RCI A Net investment in Assets	Cable Conspanies \$10,000,000	Rate Setting \$10,000,000	Rate Setting \$10,000,000
B Three: Fair Rate of Return p.s.	11.25%	11.25%	11.25%
Gross-up.		(1.100)	
C Assume Only Federal Income Tax Rate	38.00%	\$6.00W	35.00%
D Interest Expense	\$500,000	\$500,000	\$500,000
E Base Return On Investment (A * B)	\$1,125,600	\$1,125,660	\$1,125,000
F Interest Deductibility Factor (DFE)		0.4444	0.4444
G Effective Tax Rate (C * (1-F))		8.1844	0.1944
\$-Corp Adhesiment			
H Base Return On Investment (A*B)		Ne Ne	\$1,125,000
(Cistributions (s's Base Year Income Toxes)			\$605,760
J Returns Subject To Income Tax (H - I)			\$519,231
K Returns Percentage Subject To Income Tax (JAI)		ne ne	0.4615
Grossed-lib ROI			,
L Gross-Up Rate: C Corp = (1/(1-G)); S Corp = (1/(1-(G'X)))		1,2414)	1,0006
M Grossed-Up Rate of Return (B * L) N Return On Investment Grossed-Up For Taxes (A * M)		0.1507	0.1238
Expenses (Other Than Income Taxes)		\$ 1,300,302	(- 41,250,510)
O Vennuel Income Tax Allowance On Return On Investment For Base Year = 35,00%	\$608,786	[No.
P Annual Expenses, Other Than Income Taxes and Interest	\$3,000,000	\$3,000,000	\$5,000,000
Q Plus: Arnual Interest Expense	\$500,000	\$500,000	\$500,000
R Equals: Total Expenses, Other Than Incompe Taxes	\$4,105,760	\$3,500,600	\$3,500,600
Revenue			
S Annual Revenue (C + K)	\$5,230,769	\$4,896,552	\$4,735,915
Estrainge Retained in Susiness Calculations		Earnings Retained in	tuninees Calculations
T Revenue	\$5,250,760	\$4,806,552	\$4,736,615
U (Lees: Expenses Other Then Income Taxes	\$3,500,000	\$3,500,000	\$3,500,000
V Equals: Pre-Tax Earnings	\$1,730,780	\$1,306,552	\$1,235,915
W Less: C Corp Income Taxes = 35,00% of O = S Corp Shareholder Distributions	\$805,780	\$486,793	\$432,570
X Equals: Earnings Retained in Business Y Earnings Retained in BusinessRet Investment in Assets	\$1,125,000 11.25%	\$907,759 9.06%	\$803,345 8,03%

Notes

- 1. For Puposes of Bustration, This Example Uses The Top Federal Rate For C Corp's, Even Though The Top Rate For S Corp's Owners is Higher (35.6%).
- 2. S Corp Blust Charge Less Than C Corp And Therefore Has Less To Retirest in Business Than C Corp, Despite Same Fundamental Cost Structure and Same Fair Return On Investment.
- 3. If S Corp Web Treated Same As C Corp, Effect On Cable Entity Cash Flows And Cable Subscribers' Raise Would Be The Same.
- 4. S Corp's Will Make Distributions To Shareholders For Income Taxes On Cable limity (smrings, And The New Rules Would Not Allow These Distributions For Income Taxes
 To Be Reimbursed Through Rates, Thereby Effectively Lowering The Not Return On Investment For a S Corp (Versus A Similarly Situated C Corp).

Example 3 - FCC Form 1205 Format - Revised To Match Cost of Service Results (S Corp Does Not Match Exactly)

Comparison of Disparate Effects of New Rules On Income Tax Relimbursement Between C Corporations and S Corporations, Partnerships and Sole Proprietorships ("S Corp's")

T Revenue 35,220,760 U Less: Expenses Other Tran Income Texas 33,000,000 V Equals: Pro-Tax Exmirgs 35,00% of 0 = 5 Corp Shareholder Diethutions 31,730,760 X Equals: Exmirings Retained in Business 15,00% of 0 = 5 Corp Shareholder Diethutions 31,125,000 Y Earnings Retained in Business 11,125,000 11,25%	S Arrust Revenue (C+K) \$5.230.789	O Venual Income Tex Alovance On Relum On Investment For Seas Year = 35.00%. \$805,786 P Annual Expenses, Other Than Income Taxes and Interest. \$3,000,000 Q Plus: Annual Interest Expense. \$3,000,000 R Equals: Total Expenses, Other Than Income Taxes. \$4,105,788	M Grossed-Up Rate: C Corp = ((11-C))*G)+1; S Corp = (((11-C))*K/Y(G*K))+1 M Grossed-Up Rate of Return (B * L) N Return On Investment Grossed-Up For Taxes (A * M)	H Base Return On Investment (A* 5) 1 Distributions (A* 5 Base Year Income Taxes) J Returns Subject To Income Tax (A-1) K Returns Percentage Subject To Income Tax (JA1)	C. Assume Only Federal Income Tax Rate D. Interest Expanse E. Base Return On Investment (A*B) F. Interest Deductibility Factor (D/E) G. Effective Tax Rate (C* (1-F))	Results For C Comp a S Cop Colabs A Nat Investment in Assets 510,000,000 8 Times: Fair Rate of Return p.s. 11,29%	Assumed Repulls For Base Your For Both C Corp And S Corp Cable Company Exemples: (Assuming Same Repullator Treatment - No Adversants To ROL Or Income Tax Alcerson) Revenue Calculations
\$4.961,533 \$1.451,533 \$951,538 \$950,000		\$3,000,000) \$3,000,000	1,290† 0,1402 \$1,441,538		35.20% 36.215.000 36.216.000 36.216.000	For C Corp - Advance - Advance - For Substitution (1.25%)	First Year's Remain Sees on Sees Year's Su Revenue Calculations
\$1,000,000 \$1,000,000 \$1,100,000 \$1777,040 7,77%	1,080	\$3,000,000) \$500,000	1,0837 0,1106660 \$1,146,680	\$1,125,000 \$005,780 \$819,231 0.4815	\$5.005 \$1,125,000 0.4444	For For S Comp. S Comp. Allowed For	Year's Expense Brucher Std Revised Rate Rules: deductions

- 1. For Puposes of Bustration, This Example Uses The Top Federal Rate For C Corp's, Even Though The Top Rate For 8 Corp's Owners in Higher (39.8%),
 2. 8 Corp Blust Charge Less Than C Corp And Therefore Has Less To Reinvest in Business Then C Corp, Despite Series Fundamental Cost Structure and Same Fair Return On Investment.
 3. If 8 Corp West Treated Series As C Corp, Effect On Cable Shifty Cash Flows And Cable Subscribers' Rates Would Be The Series.
 4. 8 Corp's Will Stake Distributions To Shareheldern For Income Tasse On Cable Shifty Earnings, And The New Rules Would Not Allow These Distributions For Income Tasses
 To Be Reinburged Through Rates, Thereby Effectively Lamening The Net Return On Investment For a 8 Corp (Versus A Similarly Shusted C Corp).